

This is Google's cache of http://www.dailystar.com.lb/opinion/17_01_04_e1.asp.

Google's cache is the snapshot that we took of the page as we crawled the web.

The page may have changed since that time. Click here for the [current page](#) without highlighting.

To link to or bookmark this page, use the following url: [http://www.google.com/search?](http://www.google.com/search?q=cache:sVgKWVnIG6kJ:www.dailystar.com.lb/opinion/17_01_04_e1.asp+site:www.dailystar.com.lb+unemployment&hl=en&ie=UTF-8)

[q=cache:sVgKWVnIG6kJ:www.dailystar.com.lb/opinion/17_01_04_e1.asp+site:www.dailystar.com.lb+unemployment&hl=en&ie=UTF-8](http://www.google.com/search?q=cache:sVgKWVnIG6kJ:www.dailystar.com.lb/opinion/17_01_04_e1.asp+site:www.dailystar.com.lb+unemployment&hl=en&ie=UTF-8)

Google is not affiliated with the authors of this page nor responsible for its content.

These search terms have been highlighted: **unemployment**

NEW
THE DAILY STAR
ELECTRONIC EDITION

TheDailyStar
On line

Opinion

DS 17/01/04

search

Today

Resources

[Front page](#)
[Search](#)
[Feedback](#)
[Contact Us](#)
[About us](#)

Opinion

[Discussion](#)
[Letters to the Editor](#)

Weather

Classified

[Post](#)
[Read](#)

Subscription

Advertising

[Printed edition](#)
[On line edition](#)
[Sponsors](#)

inadaily.com
Global news by
email
Try it free today!

Free trade gains supporters and opponents in the Middle East

Free trade has its supporters and opponents.

Supporters defend it on the basis of the merit of competition in reaching higher values in economic activities, and also on the concept of comparative advantage. The theory of comparative advantage, formulated by the British economist David Ricardo (1772-1823), predicts that nations with free trade are better off, as each participant specializes in its areas of greater factor productivity.

A country is said to have a comparative advantage in the production of, say, a good cloth, if it can produce it at a lower opportunity cost than another country. The opportunity cost of cloth production is defined as the amount of, for example, shoes that must be given up in order to produce one more unit of cloth. Thus, country X would have the comparative advantage in cloth production relative to country Y if it must give up fewer shoes to produce another unit of cloth than the amount of shoes that country Y would have to give up to produce another unit of cloth.

The opponents of free trade are two groups with opposing ideologies. Protectionists are among the staunchest opponents of free trade. The most basic tenet of their argument is based on the notion that domestic production must be protected at any cost and internal industries must not be exposed to foreign competition. The other group opposes those free-trade agreements that evade fair trade and disregard labor rights and environmental safeguards. The first group is unequivocally against free trade, while the other is against unfair trade.



The Bush administration has shown interest in expanding the free-trade zone to the rest of Latin America and the Middle East. Besides this administration's ideological favoring of free trade, Washington believes that free trade promotes peace. This argument is similar to the administration's other contention that democracies do not fight each other, both of which have proven to be doubtful. In any case, trade and calculated competition have proven to be gainful for a nation's economy.

A half century ago, the General Agreement on Tariffs and Trade (GATT), was created at Bretton Woods, New Hampshire. In 1995, this organization was renamed the World Trade Organization (WTO). GATT was started as a small organization compared to IMF and World Bank, but its impact on the global economy is much more significant than either of these two institutions. The eight major negotiation rounds organized under the auspices of GATT/WTO have played crucial roles in the reduction of barriers to trade and investment and have expanded global commerce. The WTO is definitely setting the wave of the future in the current global economy. The more developed economies benefit from this wave while, unfortunately, the more undeveloped economies may lose substantially without having too many choices. A quick response and preparation are absolutely necessary if the countries of the Middle East decide to minimize the loss and participate actively in free trade.

The Middle East, in the past, was the commercial and intellectual bridge between Europe and Asia. The Silk Road passed through this region. As the birthplace of religion and alphabets, whose influence can still be seen in some technical terminology such as tariff, cotton, and coffee it was among the most cosmopolitan regions of the world. Although the people of the Middle East made great strides in the past in every conceivable area including global commerce, it is painfully obvious that the main routes of modern global trade have bypassed this region. Reliance on oil as the single most important commodity for export, combined with authoritarianism in politics, has created under-developed economies and politics in this region. While Latin American and Asian countries have shifted their economies away from the exporting of raw materials and toward manufacturing, the countries of the Middle East still rely heavily on oil. Today, the 22 members of the Arab League, combined with Iran and Afghanistan, export less than \$6 billion worth of

manufactured goods to the US. This is less than half of the value of exports from Hong Kong to the United States. Muslim countries in the region trade less with one another compared to African countries, and much less than the Latin Americans, Asians and Europeans. The diseases of stagnation and mismanagement of the economies are widespread throughout the whole region. The rentier states relied heavily on natural resources as a source of revenue. Reliance on oil has postponed not only viable economic development in these countries but also instigated political decay as governments have totally deserted the question of accountability in politics.

Only four countries in the Middle East Turkey, Israel and, to some extent, Iran and Lebanon have succeeded in integrating their economies into the global economy.

On May 9, 2003, US President George W. Bush announced his Middle East Free-Trade Initiative in a speech at the University of North Carolina. The initiative is designed to lead to a free-trade agreement between the United States and the Arab countries within 10 years. It is said that the initiative includes US support for educational, economic and infrastructure development within the Arab nations. Jordan became the first Arab nation to commence a free-trade agreement with the US on Oct. 24, 2000, Morocco is expected to commence a similar agreement in 2003, and negotiations with Bahrain will begin in 2004. The Europeans have also initiated negotiations for separate agreements in the area.

But how did these free-trade agreements with US work for other countries, and how much did each partner gain? What are the lessons to be learned from these free trade agreements for the Middle East?

One of these agreements was North American Free-Trade Agreement (NAFTA), reached between the United States, Canada and Mexico three countries with different political systems and economies. Prior to NAFTA, the US and Canada had a Free-Trade Agreement whose components were later added to NAFTA. In 1995, Mexico's GDP was \$250 billion, or 3.2 percent of North America's economy. Canada's GDP was \$560 billion, or 7.3 percent of North America's total economy. The US GDP was \$6.952 trillion, or 89.5 percent of North America's total economy.

In the case of NAFTA, it is unmistakably obvious that from the time the agreement went into effect, trade and investment has increased extensively between the US, Canada and Mexico. In the areas of labor and

environment, the result is less clear. The two economists, John Cavanagh and Sarah Anderson, wrote, "NAFTA offers a rocky road map for the Americas. Over eight years of monitoring reveal that, yes, the accord has boosted investment and trade, just as the negotiators promised. And yes, increased international competition may have helped fuel a dramatic rise in labor productivity rates during the 1990's, particularly in Mexico and the US. But workers, communities and the environment in all three countries have suffered from the agreement's flaws."

As it is obvious from this argument, free trade itself under NAFTA is not the target of criticism, while the "agreement's flaws" are. These are what most opponents of NAFTA object to as the shortcoming of this specific free-trade agreement.

In the area of tariff eradication under NAFTA and the impact of this eradication on trade, there is unanimity of opinion that this trade agreement lived up to its promises of substantial increase in trade. In 2001, economist K.A. Clausing studied the responsiveness of import shares to tariff changes as a result of NAFTA and found a substantial trade-creation effect. He concluded that, on average, a 1 percentage-point increase in the tariff preference corresponds to approximately a 6.9 percent increase in US import of Mexican goods.

In 2000, US farmers, food processors and exporters shipped approximately \$273 million worth of US agricultural products to Canada and Mexico each week. This was an increase of \$137 million a week and \$7.2 billion a year compared to the average shipment during the four years prior to NAFTA. Since 1994, real US imports from Mexico have increased 190 percent and from Canada 69 percent. This amount totaled \$622 billion in 2001, up from \$293 billion in 1993. According to economist Peter Leach, Mexico's exports to the US declined after 2001 when China joined WTO, but this decline has not been substantial. Every indicator shows that NAFTA facilitated the rapid flow of increased trade among these three nations.

Under NAFTA, foreign investments in each economy have increased substantially as well. NAFTA partners have invested \$189 billion in one another's economies, while total foreign direct investment in these three countries reached \$864 billion in 1998. Since NAFTA, investment from the US and Mexico in Canada has increased more than 43 percent and investment from Canada and Mexico in the US has

increased 58 percent. During 2001, direct investment in Mexico reached \$25 billion, the largest level ever recorded. The American and Canadian firms were credited for most of this investment. These companies concentrated mostly in the Maquiladora industrial complex. Exports from Maquiladora increased 135 percent from 1994 to 1998 and employment in this complex rose from 541,000 during the pre-NAFTA period to over 1,300,000 in 2001.

Labor and environmental issues under NAFTA have been at the center of debate among both economists and activists. NAFTA's shortcomings in these areas are related to lack of sufficient safeguards built into the agreement. Labor rights and environmental issues have not been included in the NAFTA core agreement; they are included in the "side agreement." In the area of labor, two specific questions have been raised: how labor rights can be protected under a free trade agreement and how job losses can be eliminated or minimized?

There is much evidence that the employers in all three NAFTA countries used "threat effects" in bargaining with employees. A 1994 Wall Street Journal survey reported that one-fourth of almost 500 US corporate executives polled admitted that they were "very likely" or "somewhat likely" to use NAFTA as bargaining chip to hold down wages in the United States. The MIT economist, Kate Bronfenbrenner, described in 1999 the impact of these threats in testimony to the US Trade Deficient Review Commission: Under the cover of NAFTA and other trade agreements, employees use threats of plant closure and capital flight at the bargaining table, in organizing drives, and in wage negotiations with individual workers. What, they say to workers, either directly or indirectly, is if you ask for too much or do not give concessions or try to organize, strike, or fight for good jobs with good benefits, we will close, we will move across the borders just like other plants have done before. In a story in the Wall Street Journal (Nov. 13, 2003), Peter Wonacott says: "China has the world's busiest factory floors yet increasingly suffers from a production glut, and big overseas retailers such as Wal-Mart, that soak up China's exports have been quick to capitalize. They are demanding rock-bottom prices which force factory owners to cut costs any way they can in order to remain in contention for export orders."

"This relentless cost cutting raises questions about how much pressure retailers should exert in places where **unemployment** and labor laws are a

problem," he says.

This is exactly the issue at the heart of the labor argument under free-trade agreements and NAFTA. The question is centered on how labor rights should be protected under globalization and free trade agreements. Wonacott explains that in the Ching Hai fan factory in China, the company has cut its labor force in half, to 1,500 workers, while the level of orders remains constant. Each worker's salary is \$32 a month, which is 40 percent less than the local minimum wage, and shifts last up to 18 hours a day. The other issue of concern to labor under free trade and NAFTA is job security and job loss. Those who argue that **unemployment** has increased in the US as a result of NAFTA base their arguments on this country's trade deficit with Mexico and Canada. The economist Jeff Faux at the Economic Policy Institute in Washington argues: "US exports to its NAFTA partners grew 82 percent between 1993 and 2002. While impressive, this growth was not enough to prevent a ballooning trade deficit with both countries. US trade with Mexico swung from \$1.7 billion surplus in 1993 to a \$37.1 billion deficit by 2002. And the deficit with Canada swelled from \$10.7 billion in 1993 to \$48.2 billion in 2002."

This deficit, he says, creates job losses in the US as new imports under NAFTA substitute for homemade products that were produced by American workers in this country. Many economists and economic column writers in the US agree with this assessment.

Wonacott further argues in his piece on Chinese exports to the US in the Wall Street Journal: "This is the kind of picture a US politician might conjure up when tapping the hot-button issue of American job loss to the flood of Chinese exports."

In all NAFTA countries, **unemployment** has increased in one or more sectors of each economy due to either the trade deficit, as in the US, or the cheaper labor cost in another country, or due to situations such as those in Mexico, where **unemployment** increased in the agricultural sector, specifically in the small corn growing regions.

In the area of environment, NAFTA's record is definitely gloomy. In April 2002, Kevin Gallagher reported for the Fletcher School at Tufts University on NAFTA's environmental impact. He concluded, based on National Institute for Statistics, Geography and Information Systems (INEGI) reports, that solid waste has increased by 85 percent, air pollution by 71 percent; and soil erosion by 62 percent since 1988, when Mexico began its transition toward economic

liberalization, integration and NAFTA. According to this report, the cost of environmental damages has been \$36 billion a year. Mexico has suffered the most environmentally as compared to the US and Canada. J. Faux described: "We have created a common market, but without the rules and regulations. Goods and investment flow across the border, but not environmental and labor regulations."

Mehdi Noorbaksh is at the Center for International Studies, University of Saint Thomas. This is the first part of a two-part essay written for *The Daily Star*

Your feedback is important to us!

We invite all our readers to share with us their views and comments about this article. Please type in your comment below and press 'submit'

You must fill in the fields marked with a star (*) just in case we need to get in touch with you. The editor may decide to publish your comment as a letter to the editor; Your personal information will be kept confidential and will never be disclosed to anyone

*Name	<input type="text"/>
*E-mail	<input type="text"/>
*City	<input type="text"/>
*Country	<input type="text" value="Select Country"/>
Address	<input type="text"/>
Tel	<input type="text"/>
Fax	<input type="text"/>

☐ Please contact me as soon as possible regarding this matter

DS 17/01/04

More Opinion

- [Inside Saudi Arabia, a quiet revolution takes shape](#) (Edward S. Walker, Jr.)
- [Alternatives to Arab military reform](#) (Ashraf Fahim)

- [Europe may be the key to the Middle East this year](#) (Martin Walker)
- [Dissolve the PA and call for a unitary state](#) (John V. Whitbeck)
- [Free trade gains supporters and opponents in the Middle East](#) (Mehdi Noorbaksh)
- [When is a phone not just a phone? When you buy it in Beirut, of course](#) (Kleo Mitsis)
- [Lebanon's media: divided and unconquered](#) (Michael Young)
- [Remarkable, but not quite 'historic'](#) (Philip Robins)
- [Change in the UAE, land of the dromedary and the scorpion](#) (David Ignatius)
- [The Afghan Constitution and Bush's re-election](#) (Michael Griffin)
- [A Helsinki Process for the Gulf](#) (Giandomenico Picco)
- [Let's face it: Neither Syria nor Israel is ready for talks](#) (Michael Young)
- [Don't let Arabs and Americans miss each other](#) (Mishka Moujabber Mourani)
- [Fear of a US attack is overstated](#) (Nikki R. Keddie)
- [Whither Israel, Syria, Palestine and Lebanon?](#) (Rami G. Khouri)
- [The myth of an American neoconservative cabal](#) (Max Boot)
- [The arithmetic on Pakistan's frontier](#) (Victoria Schofield)
- [Arabs should mount a public relations campaign in the US](#) (Samer M. Renno)
- [Don't call terrorist acts in Iraq 'resistance'](#) (Julie Flint)
- [Non-OPEC production increases, forecasts predict incremental output from Iraq this year](#) (Henry T. Azzam)
- [Is it Prince Hassan's moment?](#) (David Ignatius)
- [An asymmetrical war of the shadows](#) (Saleh Abdul Jawad)
- [Syria and Turkey defy the United States](#) (Patrick Seale)
- [Assessing European-Levantine relations by the numbers](#) (Michael Schmidmayr)
- [Bush searches for Kennedy moment](#) (Julie Flint)
- [Mass arrests have led to paltry results](#) (Alia Malek)
- [Maher was manipulated, and he paid the unfortunate price](#) (Mahdi Abdul Hadi)
- [Readers Feedback on previous articles](#)
- [Middle East and North Africa media](#)
- [More Editorials and Opinions](#)

[Front page](#) | [Search](#) | [Feedback](#) | [Guestbook](#) | [Contact](#) | [About us](#) | [Discussion](#)
[Lebanon abroad](#) | [Weather](#) | [Post classified](#) | [Read classified](#) | [Subscription](#)
[Advertising : Printed edition](#) | [Advertising : On line edition](#)
[Cambio](#) | [Beirut market](#) | [Galleries](#)

Copyright© 1997-2004 The Daily Star (ISSN 1564-0310). All rights reserved.

Reproduction in whole or in part in any form or medium without written permission of The Daily Star newspaper is prohibited.

Please note that the Daily Star & the Daily Star on-line is **not issued on Sundays**.

If there are any problems viewing this site please contact the [Webmaster](#)